

BILL # SB 1247

TITLE: electric generation facilities; tax valuation

SPONSOR: Martin

STATUS: As Amended by Senate FIN

REQUESTED BY: Senate

PREPARED BY: Hans Olofsson

FISCAL ANALYSIS

Description

This bill requires the Department of Revenue (DOR) to modify the valuation tables it uses to determine the full cash value of property used in operating natural gas fired electric generation facilities placed in service after January 1, 2001. For personal property, the department would be required to use an 18-year valuation table instead of the current 25-year valuation table used by DOR. For real property improvements, the bill requires a 25-year valuation table, which DOR currently uses.

Estimated Impact

Based on DOR estimates, this bill, as amended, could cost the General Fund between \$400,000 in FY 2006 and \$2.6 million in FY 2010. The bill will reduce statewide net assessed valuation (NAV), which will increase the state's K-12 education formula cost. That impact, however, could be offset by reducing the cost of automatic school tax rate reductions that are designed to offset higher assessed value. There will be less of a tax rate reduction since the bill will lower the growth in assessed value. The net General Fund cost after accounting for the school tax rate reductions would be between \$200,000 in FY 2006 and \$700,000 in FY 2010.

The cost estimates above are based on the expected amount of full cash value that would be foregone under SB 1247, as determined by DOR. Full cash value impact estimates provided directly by the industry are comparable to DOR's estimates. JLBC Staff does not have an independent means of determining the valuation of these particular properties.

Analysis

Compared to current law, DOR estimates that SB 1247 will reduce the full cash value of electric generation facilities by \$(45.5) million in tax year 2005, \$(92.4) million in tax year 2006, \$(158.5) million in tax year 2007, \$(233.8) million in tax year 2008, and \$(308.5) in tax year 2009. Since electric generation facilities are assessed at 25% of full cash value, the corresponding NAV reductions under this bill would be \$(11.4) million in tax year 2005, \$(23.1) million in tax year 2006, \$(39.6) million in tax year 2007, \$(58.5) million in tax year 2008, and \$(77.1) million in tax year 2009.

Under the Basic State Aid formula, the state pays for the cost of K-12 education not generated through local property taxes. The state also pays 35% of residential property taxes through the Department of Education's Homeowner's Rebate program. While SB 1247 will not affect residential property valuation, it will impact the school qualifying tax rate (QTR). By reducing NAV by \$(11.3) million in tax year 2005, the bill will result in a direct increase of the state share of K-12 funding by \$400,000 in FY 2006. This impact grows to \$2.6 million by FY 2010. This estimate includes the net impact of both Basic State Aid and the Homeowner's Rebate.

The NAV reductions under SB 1247 will also generate savings in the cost of the state's Truth in Taxation (TNT) program. TNT reduces the QTR and county equalization tax rate to offset growth in existing property values. This reduction occurs automatically unless the Legislature decides to forego the TNT adjustment. Prior to the passage of SB 1247, the school tax rate is expected to be reduced by 17¢ in 2006, which will increase the state's Basic State Aid cost for K-12 education. By reducing NAV, the legislation would result in the tax rate reduction being 0.2¢ less than expected, which will save about \$200,000.

The proposal will also affect state General Fund revenues. Although the state property tax was repealed in 1996, the General Fund still receives property tax revenues from unorganized districts and school districts that levy the minimum qualifying tax rate. The impact on state revenues could not be determined but is expected to be negligible.

As noted above, the fiscal impact of this bill depends on whether the TNT impact is included or not. In the absence of a TNT adjustment, the JLBC Staff estimates that the cost to the General Fund will be about \$0.4 million in FY 2006, \$0.9 million in FY 2007, \$1.4 million in FY 2008, \$2.1 million in FY 2009, and \$2.6 million in FY 2010. If the QTR is adjusted to account for TNT, however, the bill would have a General Fund cost of \$0.2 million in FY 2006, \$0.3 million in FY 2007, \$0.4 million in FY 2008, \$0.5 million in FY 2009, and \$0.7 million in FY 2010.

Local Government Impact

This bill would shift the tax burden to property owners not affected by this legislation and/or result in property tax losses for local governments.

3/1/05